

Financial Analysis of Express Scripts

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Overview

There are now three major corporations that derive the majority of their revenue from prescription drug sales in the United States. They are CVS Caremark, Express Scripts and Walgreen which took over Rite Aid last year. Together, these companies sold 57% of the prescription drugs bought in the US in 2013.

Of these three companies, Walgreen/Rite Aid sells prescription medications almost entirely via retail pharmacy stores. CVS Caremark provides prescription drugs through both retail pharmacies and its pharmacy benefits manager service (Caremark) and Express Scripts is solely a Pharmacy Benefits Manager with a mail order prescription drug service.

All other prescription drugs in the US are sold either by small independent pharmacies, large retail stores for whom prescription drugs sales are a small portion of their overall revenue (like Walmart) or pharmacy benefit managers that act as a subdivision of a major health insurance company.

Express Scripts

Unlike CVS, Walgreen or Rite Aid, Express Scripts has no retail pharmacy stores. Instead Express Scripts is solely a pharmacy benefits manager that provides prescription medications through its mail order service and mediates retail prescription drug purchases through other retail pharmacies for health insurance companies.

In 2011 Express Scripts merged with Medco to become the largest pharmacy benefits manager in the US. In 2013, the total revenue for express scripts was about \$104 billion and \$37 billion of this was for mail order prescription drugs.

What is a pharmacy benefit manager? Their stated purpose is to mediate prescription medications prices for insurance companies. What they really do is take (and keep) part of your copay whenever your copay for a generic medication is far more than the medication is worth. How does this benefit you? It doesn't. Pharmacy benefit managers exist solely because most people know nothing about them. They do provide mail order prescription services so that people don't have to go to a pharmacy to pick up their medications, but that appears to be their only benefit.

The total executive compensation for Express Scripts executives in 2015 was \$34.7 million with \$12.9 million going to their CEO George Paz.

Sources: <http://truecostofhealthcare.net/pharmacy-financial-index/>
<http://truecostofhealthcare.net/wp-content/uploads/2014/12/LargestPharmacies2013.pdf>
<http://www.usatoday.com/story/money/personalfinance/2014/03/03/pharmacy-benefit-managers-healthcare-costs-savings/5495317/>
<http://insiders.morningstar.com/trading/executive-compensation.action?t=ESRX>

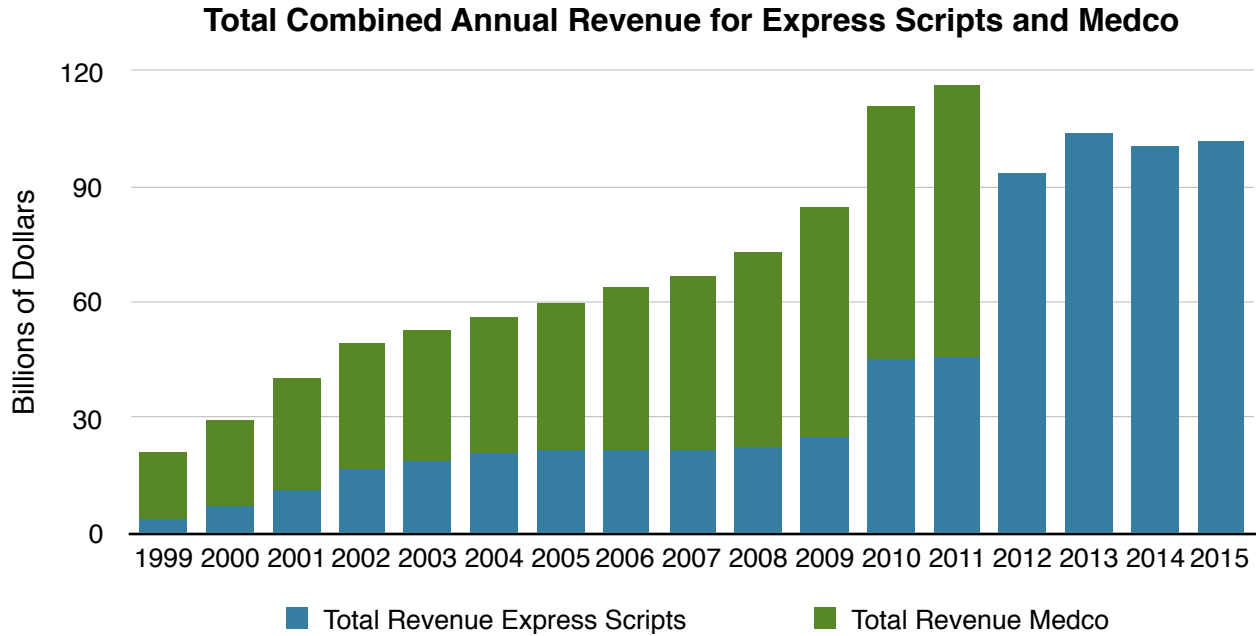
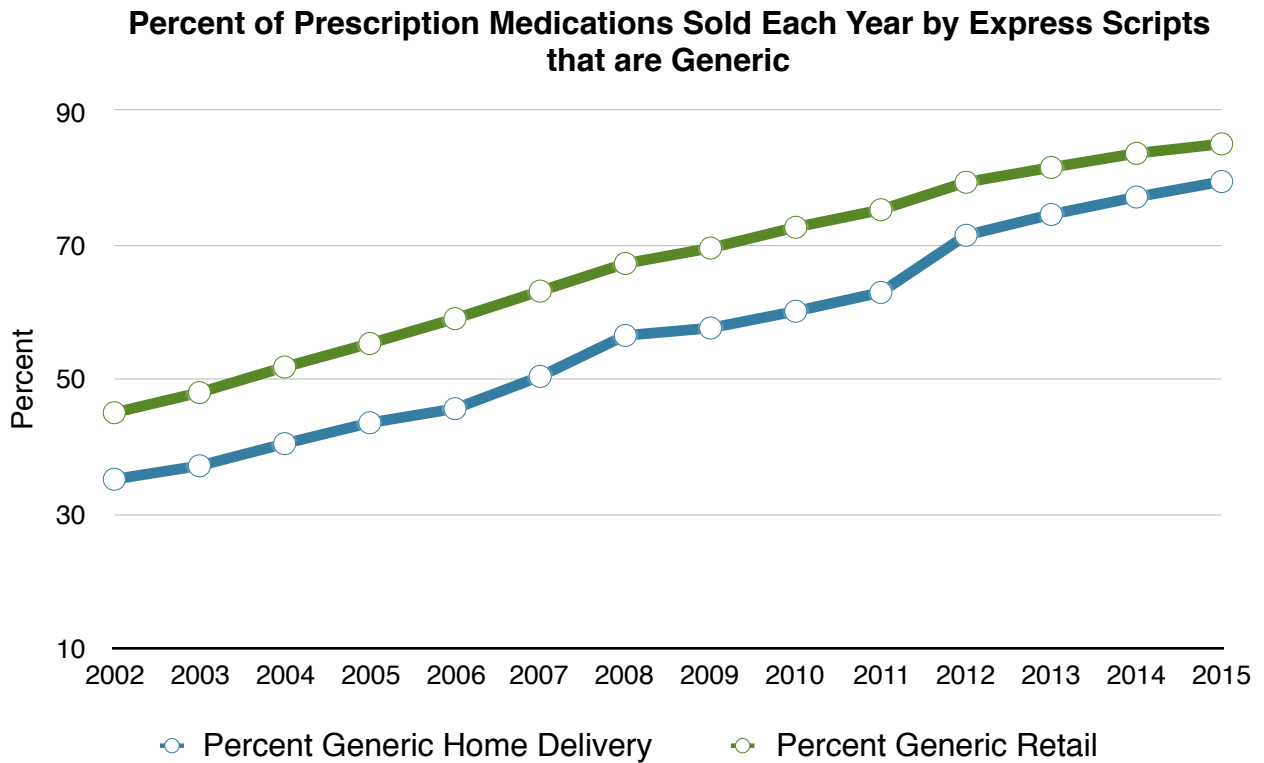


Figure 1: The total revenue for Express Scripts and Medco combined peaked at nearly \$120 billion in 2011. Since then their revenue has dropped somewhat.



Figures 2&3: The proportion of prescription drugs sold through both Express scripts and Medco (figure 3 below) that were generic was around 40% in 2002. Now nearly 85% of the prescriptions that go though Express scripts are for generic medications

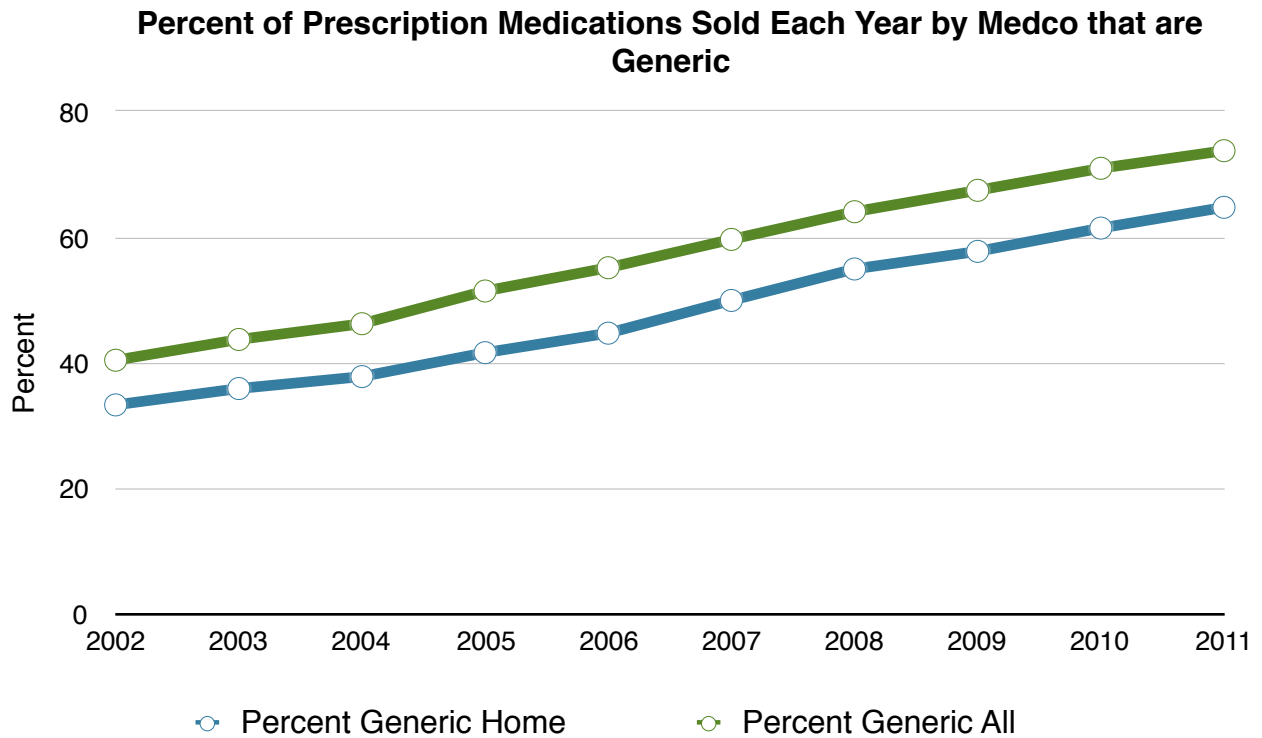


Figure 3

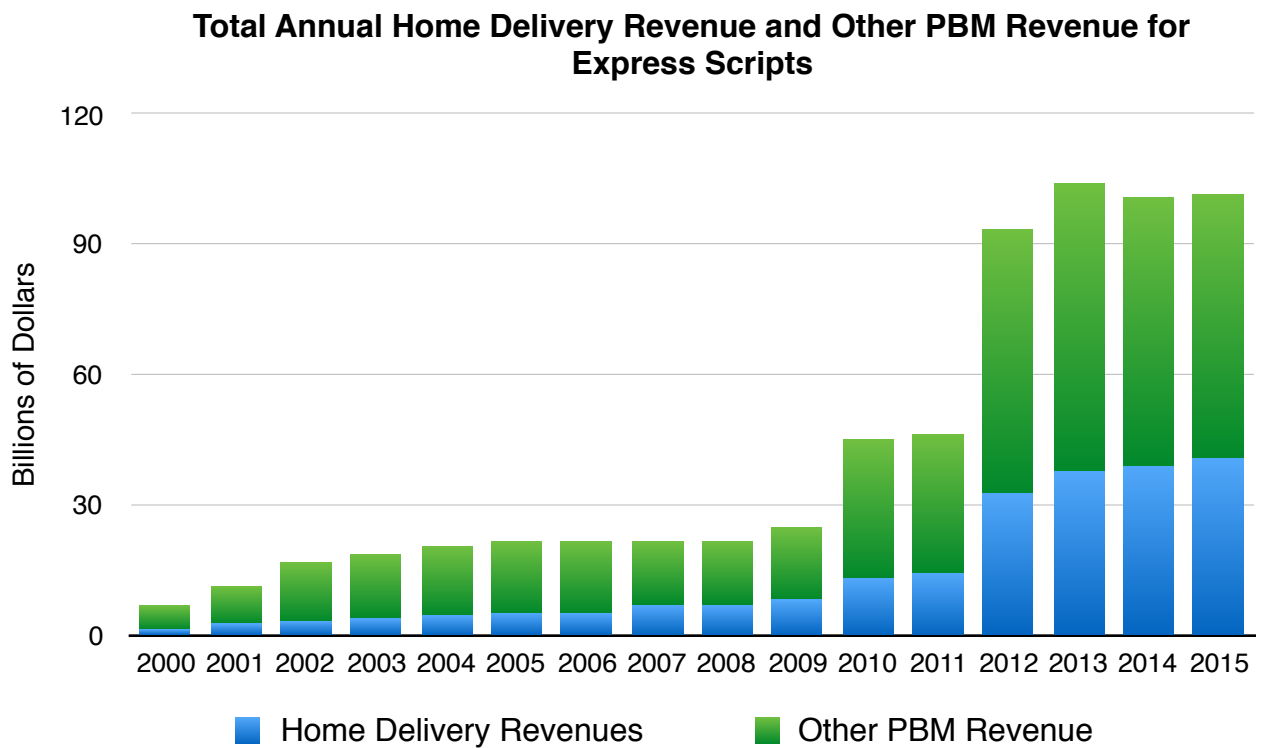


Figure 4: More than 60% of the revenue for Express Scripts is for “mediating” medication purchases at retail pharmacies. Only about 40% goes toward medications they sell directly through their home delivery service

Annual Profits for Express Scripts

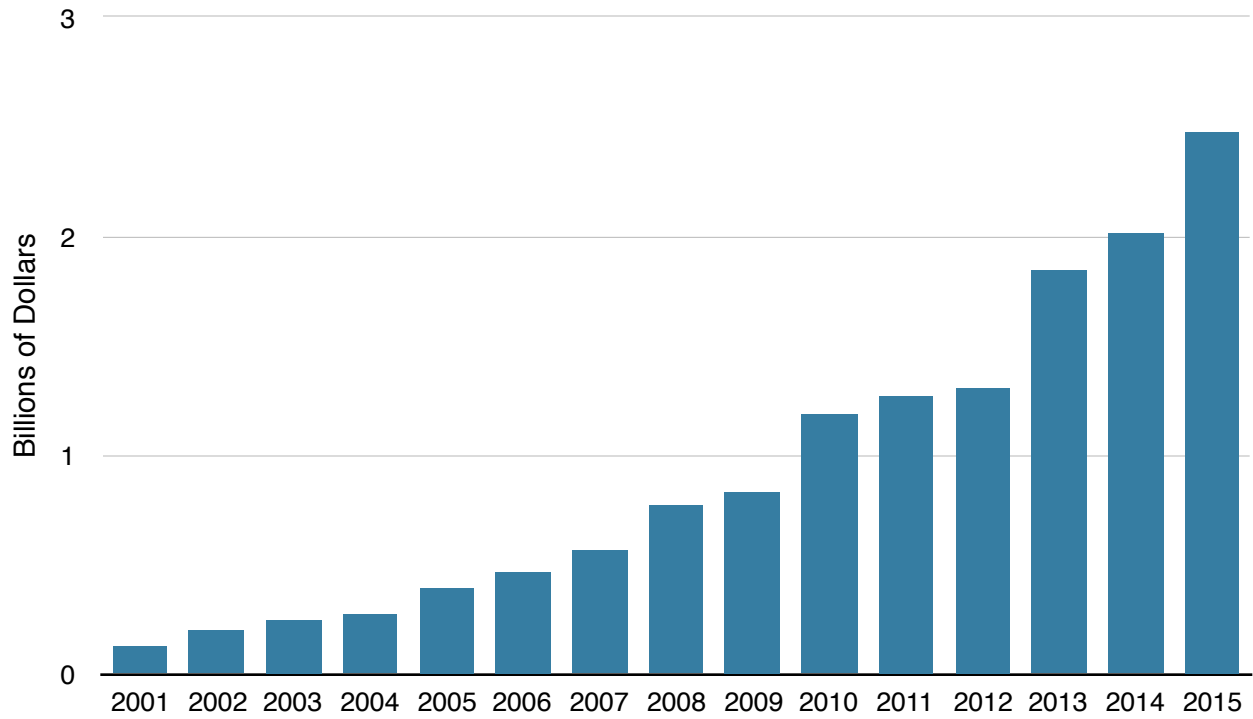


Figure 5: Express Scripts has had no trouble maintaining their profit even while total revenue is declining.